

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Romeo	County Macomb
Fiscal Year End June 30, 2006	Opinion Date September 28, 2006	Date Audit Report Submitted to State December 19, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

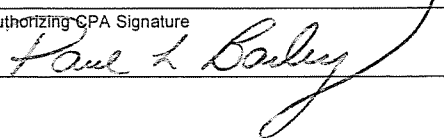
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
Zip 48060			
Authorizing CPA Signature 	Printed Name Paul L. Bailey	License Number 1101014088	

**VILLAGE OF ROMEO, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS  
with Supplementary Information**

**FOR THE YEAR ENDED  
JUNE 30, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

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**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

To the President and Members  
of the Village Board  
Village of Romeo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the Village of Romeo, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Romeo's management. Our responsibility is to express opinions on these financial statements based on our audit.

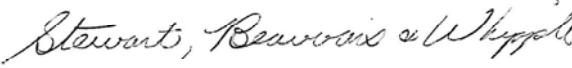
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Romeo, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006 on our consideration of the Village of Romeo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Romeo's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

September 28, 2006

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Romeo's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

**Governmental activities** - most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

**Business-type activities** - the Village charges fees to customers to help it cover the costs of certain services it provides. The water and sewer operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

**Governmental Funds** - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has 12 governmental funds.

**Proprietary funds** - Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The Village maintains two different types of proprietary funds.

**Enterprise Funds** - are used to report services for which the Village charges customers a fee for those services. The Village has two enterprise funds, the Water and Sewer Funds.

**Internal Service Funds** - report activities that provide services and supplies to other Village programs. The Village utilizes a Motor Pool internal service fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

## **FINANCIAL OVERVIEW (Government-wide financial analysis)**

The Village has combined total net assets of \$16,466,656. This is an increase of \$2,163,260 over 2005. Government-type activities comprise \$4,926,667, and business-type activities make up \$11,539,989 of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2006:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
<b>Assets</b>				
Current assets	\$ 3,398,715	\$ 3,329,335	\$ 711,218	\$ 725,753
Restricted assets	-	-	1,869,804	5,850,777
Capital assets	<u>2,650,009</u>	<u>2,712,893</u>	<u>17,235,900</u>	<u>12,158,376</u>
Total assets	<u>6,048,724</u>	<u>6,042,228</u>	<u>19,816,922</u>	<u>18,734,906</u>
<b>Liabilities</b>				
Current liabilities	172,334	237,799	158,832	149,870
Restricted liabilities	-	-	688,590	1,210,928
Long-term liabilities	<u>949,723</u>	<u>1,018,477</u>	<u>7,429,511</u>	<u>7,856,664</u>
Total liabilities	<u>1,122,057</u>	<u>1,256,276</u>	<u>8,276,933</u>	<u>9,217,462</u>
<b>Net Assets</b>				
Invested in capital assets -				
Net of related debt	1,843,634	1,832,151	11,042,748	8,982,184
Restricted	1,616,203	1,481,455	2,302	2,262
Unrestricted	<u>1,466,830</u>	<u>1,472,346</u>	<u>494,939</u>	<u>532,998</u>
Total net assets	<u>\$ 4,926,667</u>	<u>\$ 4,785,952</u>	<u>\$11,539,989</u>	<u>\$ 9,517,444</u>

The Village's governmental activities experienced a net change in assets of \$140,715. This is a result of a \$610,740 increase in tax revenue and a \$77,350 increase in investment income, which offset a loss in prior year. The business-type activities experienced an increase in net assets of \$2,022,545. This is a result of increased charges for services of \$70,110, increased interest earned of \$87,371 and capital contributions from Bruce Township of \$1,841,818. Over the past few years the General Fund has subsidized the water and sewer operations.



The following table shows the changes in net assets for 2006:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 162,030	\$ 158,978	\$ 925,661	\$ 849,549
Operating grants and contributions	249,742	249,890	-	-
Capital grants and contributions	-	-	1,841,818	573,044
General revenue:				
Property taxes	3,133,913	2,523,173	-	-
State-shared revenue	391,918	396,526	-	-
Unrestricted investment earnings	<u>127,576</u>	<u>50,226</u>	<u>141,790</u>	<u>54,419</u>
Total Revenue	<u>4,065,179</u>	<u>3,378,793</u>	<u>2,909,269</u>	<u>1,477,012</u>
<b>Program Expenses</b>				
General government	497,343	465,511	-	-
Public safety	1,432,871	1,409,257	-	-
Public works	864,643	975,104	-	-
Recreation and culture	43,865	39,617	-	-
Other activities	120,932	121,309	-	-
Interest on long-term debt	44,596	53,874	-	-
Water	-	-	693,835	675,362
Sewer	<u>-</u>	<u>-</u>	<u>1,113,103</u>	<u>912,137</u>
Total Program Expenses	<u>3,004,250</u>	<u>3,064,672</u>	<u>1,806,938</u>	<u>1,587,499</u>
<b>Changes in net assets before transfers</b>	1,060,929	314,121	1,102,331	( 110,487)
Transfers between funds	( <u>920,214</u> )	( <u>988,732</u> )	<u>920,214</u>	<u>988,732</u>
<b>Changes in net assets</b>	<u>\$ 140,715</u>	<u>\$ ( 674,611)</u>	<u>\$ 2,022,545</u>	<u>\$ 878,245</u>

### ***Governmental Activities***

Revenues for governmental activities totaled \$4,065,179 in 2006. Of this amount \$3,133,913 or 77% was received from taxes followed by State Shared Revenue of 10%.

### ***Business-type Activities***

The Village has two business-type activities, water and wastewater. The Village operates its own water and sewage treatment facility as well as purchasing water for the Detroit Water Board for certain customers. The water and wastewater funds had a net increase in net assets of \$95,376 and \$1,927,169, respectively.

## **FINANCIAL ANALYSIS OF MAJOR FUNDS**

The General Fund ended 2006 with a fund balance of \$1,071,512, of which \$143,348 was designated for vested accrued vacation and sick time, \$11,369 was reserved for prepaid expenditures, with the remaining amount of \$916,795 unreserved. This is a decrease of \$51,905 from the prior year.

The Major Street Fund ended 2006 with a fund balance of \$1,074,491, which is an increase of \$44,279. This increase is a result of receiving \$26,699 more revenue than anticipated, and \$19,784 less expenditures than anticipated.

The Municipal Street Fund ended 2006 with a fund balance of \$163,791, which is an increase of \$120,129. This increase is a result of \$57,512 more revenues than anticipated and \$62,587 less expenditures than anticipated.

The other major funds are the Water Supply System and Wastewater Fund which have been discussed earlier.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Village administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the year no amendments were made and operating results varied from the budget in the following areas:

### **General Fund**

- Property tax revenues were \$56,241 less than budgeted because the budget did not take into account the DDA capture.
- Interest earned was \$46,500 more than budgeted due to rising interest rates.
- The Village Hall spent \$25,288 less than budgeted.

### **Major Street Fund**

- Revenue was \$26,699 more than budgeted as a result of receiving \$17,700 more of interest earned and expenditures were \$19,784 less than anticipated.

### **Municipal Street Fund**

- Revenue was \$57,512 more than budgeted as a result of receiving \$51,693 more tax revenue and expenditures were \$62,587 less than budgeted due to \$24,558 less spent on routine maintenance and \$38,948 less spent on sidewalks than budgeted.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Village had \$19,885,909 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2006. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$5,598,675 of capital assets before taking into account depreciation, \$152,399 in the governmental activities and \$5,446,276 in the business activities. The significant disposal for the year was a 1980 Vactor, which was traded in for a 1994 remanufactured Vactor. The addition in the business activities was for the expansion and upgrade of the Wastewater Treatment Plant. Depreciation for the year was \$584,035.

The following table shows the capital assets at June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 681,473	\$ 15,316
Land improvements	397,095	-
Building and improvements	1,623,290	7,285,842
Machinery and equipment	730,388	1,763,517
Vehicles	1,199,853	-
Infrastructure	75,644	-
Utility systems	-	7,938,355
Construction in progress	-	8,193,380
	<u>4,707,743</u>	<u>25,196,410</u>
Accumulated depreciation	( 2,057,734)	( 7,960,510)
	<u>\$ 2,650,009</u>	<u>\$ 17,235,900</u>

### Long-term Debt

At June 30, 2006, the Village had \$8,379,234 in long-term debt compared to \$8,875,141 at June 30 2005. During the year, the Village entered into a capital lease for a remanufactured vector in the amount of \$135,000. The following table shows the long-term debt at June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bonds	\$ 650,000	\$ 7,105,000
Capital Leases	135,912	-
Notes/Contracts Payable	20,463	436,584
Compensated Absences	<u>143,348</u>	<u>57,447</u>
	949,723	7,599,031
Deferred Refunding Loss/Issuance Discounts	-	( 169,520)
	<u>\$ 949,723</u>	<u>\$ 7,429,511</u>

### ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Romeo, population 3,721 (2000 Census) is primarily a residential community proud of its historic character, and small town charm, with a strong based industrial district. The reported median income level for the Village of Romeo is \$48,015 (SEMCOG profiles). There is one 15-acre area slated for multiple family district development, and one 55-acre site that is currently being developed under the Brownfield Redevelopment Plan, as approved by the State of Michigan, County of Macomb, and the Village of Romeo.

Many factors are considered in preparation of the Village's budget for the 2007 fiscal year. Those factors considered are as followed:

- The age of the community and its infrastructure is considered for long-term maintenance projects. The Village has authorized its engineering firm to perform a Sanitary Sewer Evaluation Study on the entire sewer system. The project is in the third year of development, and will require funding in the 2007 fiscal year for designated areas of rebuilding failing catch basins, and the elimination of a storm line that interferes with a sanitary line, and creating a general inventory of the lines. The construction will be spread out over the next year, for an estimated \$458,000.
- The Board of Trustees increased the water rates from \$11.00 to \$15.00 and the sewer rates from \$21.00 to \$28.00. While the Board has made a decision to subsidize the water and sewer system from the General Fund, strong consideration for increasing the rates should be made in order to keep up with the daily maintenance costs of operating the utilities. The General Fund also covers the debt on the upgrade and expansion of the Wastewater Treatment Plant.
- The Village local streets within the central business district are in need of repair and repaving. Two local streets within the industrial district are in need of repaving. While the Board did authorize to have a portion of this plan prepared for bidding, the funding was not available, and the project, while on hold, will need an update to include other deteriorating streets. The Board of Trustees has requested the use of Major Street Funds to assist with the cost of this project.
- Ford Motor Company proportionately is the largest taxpayer to the Village of Romeo. However, the strength of the smaller industrial companies in the district continues to stand ground during the economic troubles taking place with other automotive companies in the State of Michigan. The new development of 55 acres in the industrial district will be a benefit to the Village, as well as to the entire area. Two MI Renaissance Recovery Zones were created in the Industrial District to enable two companies that have been here for over 15 years, to remain in operation during these difficult economic times.

Overall, the general maintenance and operation of the Village of Romeo has been kept up to date, and under constant review by the Clerk/Administrator, Supervisors and reported to the Board of Trustees on a monthly basis.

## **CONTACTING THE VILLAGE**

This financial report is designed to provide a general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village/Clerk Administrator, Marian T. McLaughlin, at 586-752-3565, or in writing to the same, 121 W. St. Clair, Romeo, MI 48065.

## **BASIC FINANCIAL STATEMENTS**

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF NET ASSETS

**JUNE 30, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 2,310,404	\$ 395,138	\$ 2,705,542	\$ 268,670
Investments	690,829	-	690,829	-
Receivables (net of allowance)	223,177	341,672	564,849	-
Due from primary government	-	-	-	62,225
Prepaid expenditures	148,713	-	148,713	-
Internal balances	25,592	( 25,592)	-	-
Restricted Assets -				
Cash and cash equivalents	-	1,220,606	1,220,606	-
Investments	-	123,801	123,801	-
Due from other governmental units	-	525,397	525,397	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	681,473	8,208,696	8,890,169	-
Assets being depreciated	1,968,536	9,027,204	10,995,740	-
Total Assets	<u>6,048,724</u>	<u>19,816,922</u>	<u>25,865,646</u>	<u>330,895</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	95,776	69,615	165,391	-
Accrued interest	14,333	89,217	103,550	-
Due to component unit	62,225	-	62,225	-
Current liabilities payable from restricted assets	-	688,590	688,590	-
Non-current liabilities				
Due within one year	214,266	444,804	659,070	-
Due in more than one year	735,457	6,984,707	7,720,164	-
Total Liabilities	<u>1,122,057</u>	<u>8,276,933</u>	<u>9,398,990</u>	<u>-</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	1,843,634	11,042,748	12,886,382	-
Restricted				
Debt service	87,421	-	87,421	-
Acquisition/construction of capital assets	36,420	2,302	38,722	-
Other	1,492,362	-	1,492,362	-
Unrestricted	<u>1,466,830</u>	<u>494,939</u>	<u>1,961,769</u>	<u>330,895</u>
Total Net Assets	<u>\$ 4,926,667</u>	<u>\$ 11,539,989</u>	<u>\$ 16,466,656</u>	<u>\$ 330,895</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 497,343	\$ 91,999	\$ -	\$ -
Public Safety	1,432,871	68,513	6,940	-
Public Works	864,643	1,518	197,014	-
Recreation and Culture	43,865	-	45,788	-
Other Activities	120,932	-	-	-
Interest on Long Term Debt	44,596	-	-	-
Total governmental activities	<u>3,004,250</u>	<u>162,030</u>	<u>249,742</u>	<u>-</u>
Business type activities				
Water Supply System	693,835	375,788	-	-
Wastewater	1,113,103	549,873	-	1,841,818
Total business type activities	<u>1,806,938</u>	<u>925,661</u>	<u>-</u>	<u>1,841,818</u>
Total Primary Government	<u>4,811,188</u>	<u>1,087,691</u>	<u>249,742</u>	<u>1,841,818</u>
<b>Component Units</b>				
Downtown Development Authority	<u>88,482</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contribution not -				
restricted to specific programs				
Unrestricted investment income				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Governmental Activities	Primary Government		Component Units
	Business Type Activities	Total	DDA
\$( 405,344)	\$ -	\$( 405,344)	\$ -
( 1,357,418)	-	( 1,357,418)	-
( 666,111)	-	( 666,111)	-
1,923	-	1,923	-
( 120,932)	-	( 120,932)	-
( 44,596)	-	( 44,596)	-
( 2,592,478)	-	( 2,592,478)	-
-	( 318,047)	( 318,047)	-
-	1,278,588	1,278,588	-
-	960,541	960,541	-
( 2,592,478)	960,541	( 1,631,937)	-
-	-	-	( 88,482)
3,133,913	-	3,133,913	132,791
391,918	-	391,918	-
127,576	141,790	269,366	10,260
( 920,214)	920,214	-	-
2,733,193	1,062,004	3,795,197	143,051
140,715	2,022,545	2,163,260	54,569
4,785,952	9,517,444	14,303,396	276,326
<u>\$ 4,926,667</u>	<u>\$ 11,539,989</u>	<u>\$ 16,466,656</u>	<u>\$ 330,895</u>



# VILLAGE OF ROMEO, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Municipal Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,006,998	\$ 378,703	\$ 126,584	\$ 643,647	\$ 2,155,932
Investments	-	690,829	-	-	690,829
Receivables -					
Interest and accounts	6,223	-	2,662	80	8,965
Property taxes	89,193	-	-	-	89,193
Due from other governmental units -					
Federal/State	131,815	20,475	-	10,638	162,928
Due from other funds	33,826	-	41,519	11,113	86,458
Prepayments and deposits	11,369	-	-	-	11,369
	<u>1,279,424</u>	<u>1,090,007</u>	<u>170,765</u>	<u>665,478</u>	<u>3,205,674</u>
Total Assets	<u>\$ 1,279,424</u>	<u>\$ 1,090,007</u>	<u>\$ 170,765</u>	<u>\$ 665,478</u>	<u>\$ 3,205,674</u>
<b>Liabilities:</b>					
Accounts payable	\$ 49,150	1,111	5,823	\$ 17,410	\$ 73,494
Accrued liabilities	15,978	22	147	5,992	22,139
Due to other funds	423	14,383	1,004	67,682	83,492
Due to component units	62,225	-	-	-	62,225
Deferred revenue	80,136	-	-	-	80,136
	<u>207,912</u>	<u>15,516</u>	<u>6,974</u>	<u>91,084</u>	<u>321,486</u>
Total Liabilities	<u>207,912</u>	<u>15,516</u>	<u>6,974</u>	<u>91,084</u>	<u>321,486</u>
<b>Fund Balances:</b>					
Reserved -					
Prepays	11,369	-	-	-	11,369
Debt Service	-	-	-	87,421	87,421
Capital Projects	-	-	-	36,420	36,420
Unreserved -					
Designated -					
Accrued vacation and sick	143,348	-	-	-	143,348
Undesignated -					
General Fund	916,795	-	-	-	916,795
Special Revenue Funds	-	1,074,491	163,791	450,553	1,688,835
Total Equity	<u>1,071,512</u>	<u>1,074,491</u>	<u>163,791</u>	<u>574,394</u>	<u>2,884,188</u>
Total Liabilities and Fund Equity	<u>\$ 1,279,424</u>	<u>\$ 1,090,007</u>	<u>\$ 170,765</u>	<u>\$ 665,478</u>	<u>\$ 3,205,674</u>

The accompanying notes are an integral part of these financial statements.

## VILLAGE OF ROMEO, MICHIGAN

### RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2006

Fund Balances - total governmental funds		\$	2,884,188
Amounts reported for governmental activities in the statement of net assets are different because:			
Prepaid Expenses recorded in the funds on the purchase method			137,344
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Capital assets			3,635,001
Accumulated depreciation	(		1,375,209)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent personal property taxes			80,136
Allowance for uncollectible taxes receivable	(		40,876)
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			477,544
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Bonds/Notes payable	(	665,032)	
Compensated absences	(	143,348)	
Installment contracts	(	5,431)	
Capital leases	(	48,558)	
Accrued interest	(	9,092)	( 871,461)
Net Assets of governmental activities		\$	<u>4,926,667</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Major Street	Municipal Street	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 2,721,529	\$ -	\$ 412,133	\$ -	\$ 3,133,662
Licenses and permits	9,050	-	-	-	9,050
Intergovernmental -					
State	398,858	124,000	-	73,014	595,872
Charges for services	-	-	-	45,788	45,788
Fines and forfeits	39,375	-	-	-	39,375
Interest and rent	61,500	27,699	5,263	33,114	127,576
Other	11,644	-	1,064	100,897	113,605
Total Revenues	<u>3,241,956</u>	<u>151,699</u>	<u>418,460</u>	<u>252,813</u>	<u>4,064,928</u>
<b>Expenditures:</b>					
Current -					
General Government	440,196	-	-	75,870	516,066
Public Safety	1,327,099	-	-	33,856	1,360,955
Public Works	394,583	48,652	114,825	245,855	803,915
Recreation and Culture	-	-	-	43,865	43,865
Other Activities	120,932	-	-	-	120,932
Capital Outlay	4,516	-	-	-	4,516
Debt Service					
Principal	28,046	-	19,278	114,397	161,721
Interest	3,510	-	1,410	41,097	46,017
Total Expenditures	<u>2,318,882</u>	<u>48,652</u>	<u>135,513</u>	<u>554,940</u>	<u>3,057,987</u>
Excess of revenues over (under) expenditures	<u>923,074</u>	<u>103,047</u>	<u>282,947</u>	<u>( 302,127)</u>	<u>1,006,941</u>
<b>Other Financing Sources (Uses):</b>					
Transfers In	-	-	-	361,207	361,207
Transfers Out	( 974,979)	( 58,768)	( 162,818)	( 62,056)	( 1,258,621)
Total Other Financing Sources (Uses)	<u>( 974,979)</u>	<u>( 58,768)</u>	<u>( 162,818)</u>	<u>299,151</u>	<u>( 897,414)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>( 51,905)</u>	<u>44,279</u>	<u>120,129</u>	<u>( 2,976)</u>	<u>109,527</u>
Fund Balances at beginning of year	<u>1,123,417</u>	<u>1,030,212</u>	<u>43,662</u>	<u>577,370</u>	<u>2,774,661</u>
Fund Balances at end of year	<u><u>\$ 1,071,512</u></u>	<u><u>\$ 1,074,491</u></u>	<u><u>\$ 163,791</u></u>	<u><u>\$ 574,394</u></u>	<u><u>\$ 2,884,188</u></u>

The accompanying notes are an integral part of these financial statements.

## VILLAGE OF ROMEO, MICHIGAN

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2006

Net change in fund balances - total governmental funds		\$	109,527
Change in prepaid expenses recorded in the funds on the purchase method			11,417
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Depreciation expense		(	147,689)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			251
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			161,721
Internal service funds used by management to charge costs of the Village's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			9,680
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.			
Decrease in accrued interest payable	1,421		
Increase in accrued compensated absences	( 5,613)	(	4,192)
Change in net assets of governmental activities		\$	<u>140,715</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Fund
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 53,710	\$ 341,428	\$ 395,138	\$ 154,472
Accounts and interest receivable	117,661	224,011	341,672	-
Due from other funds	-	1,200	1,200	26,791
	<u>171,371</u>	<u>566,639</u>	<u>738,010</u>	<u>181,263</u>
<b>Restricted Assets:</b>				
Cash and cash equivalents	2,302	1,218,304	1,220,606	-
Investments	-	123,801	123,801	-
Due from other governmental units	-	525,397	525,397	-
	<u>2,302</u>	<u>1,867,502</u>	<u>1,869,804</u>	<u>-</u>
Total Current Assets	<u>173,673</u>	<u>2,434,141</u>	<u>2,607,814</u>	<u>181,263</u>
<b>Property, Plant and Equipment:</b>				
Property, plant and equipment	9,042,567	16,153,843	25,196,410	1,072,742
Less - accumulated depreciation	( 2,741,012)	( 5,219,498)	( 7,960,510)	( 682,525)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>6,301,555</u>	<u>10,934,345</u>	<u>17,235,900</u>	<u>390,217</u>
Total Assets	<u>6,475,228</u>	<u>13,368,486</u>	<u>19,843,714</u>	<u>571,480</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	39,713	25,217	64,930	143
Accrued expenses	787	3,898	4,685	-
Accrued interest	15,526	73,691	89,217	5,241
Bond/Notes payable (current portion)	325,310	119,494	444,804	42,405
Due to other funds	21,786	5,006	26,792	1,198
Total Current Liabilities	<u>403,122</u>	<u>227,306</u>	<u>630,428</u>	<u>48,987</u>
<b>Current Liabilities- (Payable from Restricted Assets):</b>				
Accounts payable	<u>-</u>	<u>688,590</u>	<u>688,590</u>	<u>-</u>
<b>Long-Term Liabilities (less current portions):</b>				
Accrued vacation and sick	11,363	46,084	57,447	-
Bond/Notes payable (net of current portion)	987,383	5,939,877	6,927,260	44,949
Total Long-Term Liabilities	<u>998,746</u>	<u>5,985,961</u>	<u>6,984,707</u>	<u>44,949</u>
Total Liabilities	<u>1,401,868</u>	<u>6,901,857</u>	<u>8,303,725</u>	<u>93,936</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net	4,988,862	6,053,886	11,042,748	302,863
Reserved Equipment Replacement	2,302	-	2,302	-
Unrestricted				
Unreserved	<u>82,196</u>	<u>412,743</u>	<u>494,939</u>	<u>174,681</u>
Total Net Assets	<u>\$ 5,073,360</u>	<u>\$ 6,466,629</u>	<u>\$ 11,539,989</u>	<u>\$ 477,544</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
<b>Operating Revenues:</b>				
Charges for services	\$ 364,897	\$ 542,456	\$ 907,353	\$ -
Rents	-	-	-	135,330
Other	3,391	217	3,608	-
Total Operating Revenues	<u>368,288</u>	<u>542,673</u>	<u>910,961</u>	<u>135,330</u>
<b>Operating Expenses:</b>				
Personal services	115,961	340,287	456,248	21,881
Purchase of water	149,556	-	149,556	-
Utilities	53,230	116,874	170,104	-
Repairs and maintenance	18,931	30,779	49,710	17,567
Other	74,137	153,020	227,157	4,780
Depreciation	198,752	170,000	368,752	67,594
Total Operating Expenses	<u>610,567</u>	<u>810,960</u>	<u>1,421,527</u>	<u>111,822</u>
Operating Income (Loss)	<u>( 242,279)</u>	<u>( 268,287)</u>	<u>( 510,566)</u>	<u>23,508</u>
<b>Non-Operating Revenues:</b>				
Interest earned	4,234	137,556	141,790	4,951
Gain on sale of assets	-	-	-	9,262
Tap fees	7,500	7,200	14,700	-
Interest expenses	( 83,268)	( 302,143)	( 385,411)	( 5,241)
Total Non-Operating Revenues	<u>( 71,534)</u>	<u>( 157,387)</u>	<u>( 228,921)</u>	<u>8,972</u>
Net Income (Loss) Before Transfers	<u>( 313,813)</u>	<u>( 425,674)</u>	<u>( 739,487)</u>	<u>32,480</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	409,189	511,025	920,214	-
Transfers Out	-	-	-	( 22,800)
	<u>409,189</u>	<u>511,025</u>	<u>920,214</u>	<u>( 22,800)</u>
Net Income before contributions	95,376	85,351	180,727	9,680
<b>Capital Contributions</b>	<u>-</u>	<u>1,841,818</u>	<u>1,841,818</u>	<u>-</u>
Net Income	95,376	1,927,169	2,022,545	9,680
Net Assets at beginning of year	<u>4,977,984</u>	<u>4,539,460</u>	<u>9,517,444</u>	<u>467,864</u>
Net Assets end of year	<u>\$ 5,073,360</u>	<u>\$ 6,466,629</u>	<u>\$ 11,539,989</u>	<u>\$ 477,544</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>				
Cash receipts from customers	\$ 412,059	\$ 527,628	\$ 939,687	\$ -
Cash receipts from rental of equipment	-	-	-	135,330
Cash payments to suppliers	( 283,814)	( 297,503)	( 581,317)	( 33,558)
Cash payments to employees	( 115,657)	( 328,128)	( 443,785)	( 22,534)
Net Cash Provided (Used) by Operating Activities	12,588	( 98,003)	( 85,415)	79,238
<b>Cash Flows From Noncapital Financing Activities:</b>				
Due from/to other funds	13,909	867	14,776	2,240
Transfers from/to other funds	409,189	511,025	920,214	( 22,800)
Net Cash Provided (Used) by Noncapital Financing Activities	423,098	511,892	934,990	( 20,560)
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Debt retirement	( 355,866)	( 423,511)	( 779,377)	( 47,646)
Gain on sale of assets	-	-	-	9,262
Loan proceeds	-	-	-	135,000
Deferred amount on refunding	( 51,898)	-	( 51,898)	-
Tap fees	7,500	7,200	14,700	-
Capital contribution	-	1,802,239	1,802,239	-
Acquisition and construction of capital assets	( 45,877)	( 5,922,737)	( 5,968,614)	( 152,400)
Net Cash Used by Capital and Related Financing Activities	( 446,141)	( 4,536,809)	( 4,982,950)	( 55,784)
<b>Cash Flows From Investing Activities:</b>				
Investments	-	3,596,698	3,596,698	-
Interest earned	4,234	137,556	141,790	4,951
Net Cash Provided by Investing Activities	4,234	3,734,254	3,738,488	4,951
Net Increase (Decrease) in Cash and Cash Equivalents for the year	( 6,221)	( 388,666)	( 394,887)	7,845
Cash and Cash Equivalents at Beginning of Year	62,233	1,948,398	2,010,631	146,627
Cash and Cash Equivalents at End of Year	\$ 56,012	\$ 1,559,732	\$ 1,615,744	\$ 154,472
<b>Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss) for the year	\$( 242,279)	\$( 268,287)	\$( 510,566)	\$ 23,508
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	198,752	170,000	368,752	67,594
Change in assets and liabilities:				
Receivable	43,771	( 15,045)	28,726	-
Accounts payable/accrued expenses	12,344	15,329	27,673	( 11,864)
Net Cash Provided (Used) By Operating Activities	\$ 12,588	\$( 98,003)	\$( 85,415)	\$ 79,238

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ROMEO, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**JUNE 30, 2006**

	<u>Agency Fund</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 2,437
Accounts receivable	<u>530</u>
	<u>\$ 2,967</u>
 <b>LIABILITIES:</b>	
Due to other funds	<u>\$ 2,967</u>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Village of Romeo, Michigan was incorporated as a General Law Village in 1838, under the provisions of the Constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Northern Macomb County and covers an area of approximately 1.5 square miles. The Village operates under an elected Village Board, which consists of the President and six Board members, with the daily activities operated by the Village Administrator/Clerk and Treasurer. The Village provides services to its more than 3,700 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component unit, entities for which the Village is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

**DISCRETELY PRESENTED COMPONENT UNIT -**

**Downtown Development Authority** - The Authority is controlled by a nine member Board, who are appointed by the Village President. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Board.

**B. Government-wide and fund financial statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**VILLAGE OF ROMEO**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation -**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are normally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

**General Fund** - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** - is used to account for the revenues received from the State of Michigan under Act 51, which are specifically earmarked for construction and maintenance of roads designated as Major Streets in the Village.

**Municipal Street Fund** - is used to account for the revenues received from taxes levied, which are to be used specifically for construction and maintenance of roads in the Village.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

The Village reports the following major proprietary funds:

**Water Supply System Fund** - is used to account for the treatment and distribution of water to residential and commercial users.

**Wastewater System Fund** - is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Village reports the following fund types:

**Special Revenue Funds** - are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Funds** - are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

**Capital Projects Fund** - is used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

**Internal Service Fund** - is used to account for the costs of operating and maintaining the Village's motor pool. Charges are made to other funds based on equipment used.

**Agency Fund** - is used to account for assets held by the Village as an agent for other governments and other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operation. The principal operating revenues of the Enterprise and Internal Services Funds are charges to customers for sales and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first and the unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity -**

**Deposits and Investments -**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

**Receivables and Payables -**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories and Prepaid Items -**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar -**

The Village's property tax is levied as of July 1 on the assessed valuation of property located in the Village as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll.

**Capital Assets -**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except for items capitalized in prior years in the proprietary funds which utilized a \$500 capitalized threshold. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings	10-50
Land improvements	20
Utility systems	40-50
Machinery/equipment/vehicles	5-15

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts.

**Long-Term Obligations -**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity -**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information -**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):**

Prior to June 1, the Administrator/Clerk prepares, from data submitted from administration and officials of the Village, proposed budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them. A public hearing is conducted to obtain the taxpayers' comments, and then prior to June 30, the budgets are legally enacted through passage of a resolution.

The General Fund budget was approved at the activity level and Special Revenue Funds budgets were approved at the function level, however, they are maintained at the account level for control purposes.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Budget amounts are reported as originally adopted with no amendments made by the Village Council during the year.

Michigan Public Act 621 of 1978 Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level.

During the year ended June 30, 2006, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds, which were in excess of the amounts appropriated at the function level as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund -			
Clerk/Administrator	\$ 98,000	\$ 99,199	\$ 1,199
Police Department	969,912	984,083	14,171
Department of Public Works	195,800	203,474	7,674
Special Revenue -			
Major Street Fund			
Transfers Out	56,564	58,768	2,204
Cemetery Fund			
General Government	72,800	75,870	3,070
Public Improvement Fund			
Transfers Out	-	44,088	44,088

**Other -**

As of June 30, 2006, the Village did not have two certifications from all of the financial institutions it deals with.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

As of June 30, 2006, the carrying amount of the Village Reporting Entity's deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on hand -				
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ -	\$ 440
Deposits with Financial Institutions -				
Checking/Money Market	3,013,168	2,437	268,670	3,284,275
Savings/Certificate of Deposit	<u>1,593,603</u>	<u>-</u>	<u>-</u>	<u>1,593,603</u>
Total Deposits	4,607,211	2,437	268,670	4,878,318
Investments -				
U.S. Government Securities	<u>133,567</u>	<u>-</u>	<u>-</u>	<u>133,567</u>
Grand Total	<u>\$ 4,740,778</u>	<u>\$ 2,437</u>	<u>\$ 268,670</u>	<u>\$ 5,011,885</u>
<b>Reconciliation To Combined Balance Sheet</b>				
Reported as Cash and Cash Equivalents -				
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ -	\$ 440
Cash in Checking/Money Market	3,013,168	2,437	268,670	3,284,275
Cash in Saving	<u>912,540</u>	<u>-</u>	<u>-</u>	<u>912,540</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	<u>3,926,148</u>	<u>2,437</u>	<u>268,670</u>	<u>4,197,255</u>
Reported as Investments -				
CD's	681,063	-	-	681,063
U.S. Government Securities	<u>133,567</u>	<u>-</u>	<u>-</u>	<u>133,567</u>
Total Investments Reported on				
Combined Balance Sheet	<u>814,630</u>	<u>-</u>	<u>-</u>	<u>814,630</u>
Grand Total-Combined Balance Sheet	<u>\$ 4,740,778</u>	<u>\$ 2,437</u>	<u>\$ 268,670</u>	<u>\$ 5,011,885</u>

**Deposits –**

The Village's investment policy and Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state of federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

**Custodial Credit Risk - Deposits** – is the risk that in the event of a bank failure, the Village's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Village, as of June 30, 2006, the book value of the Village's deposits was \$4,877,878 with a corresponding bank balance of \$4,915,360. Insured deposits were \$1,580,032, and the remaining \$3,335,328 was uninsured or uncollateralized.

The Village's investment policy allows for the use of bank deposits, including certificates of deposit. There are no limitations placed on the use of bank deposits.



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):**

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution and assesses the level of risk. The Village uses only those financial institutions with an acceptable estimated risk level as depositors.

**Investments -**

The Village's investment policy and Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Village to invest surplus funds in bonds, securities and other direct obligation of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**Credit Risk – Investments** – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2006, the credit quality ratings of the Village investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rated</u>	<u>Rating Organization</u>	<u>Maturity</u>
Treasuries and Federal Agencies				
Government National Mortgage Association	\$ 9,766	AAA	Moody's	5 1/2 years
U.S. Treasury Bills/Notes	123,801	Aaa	Moody's	1 month

**Custodial Credit Risk – Investments** – is the risk that, in the event of the failure of the counterparty, the Village may not be able to recover the value of its investments that are in the possession of another party. The Village's policy requires securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts. As of June 30, 2006, \$1,442,322 of investments were held in third-party safekeeping not in the Village's name, however, evidenced by safekeeping receipts.

**Concentration of Credit Risk – Investments** – is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village places no limits on the amounts the Village may invest with any single issuer.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):**

**Interest Rate Risk – Investment** – is the risk that the value of investments will decrease as a result of a rise in the interest rates. The Village attempts to minimize rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short-term securities and money markets. At year-end, the Village's investments had the following range of maturity dates:

Investment Type	Fair Value	Maturity (Years)		
		<1	1-5	6-10
Primary Government -				
U.S. Agency Securities	\$ 133,567	\$ 123,801	\$ -	\$ 9,766
Certificate of Deposit	<u>681,063</u>	<u>390,450</u>	<u>290,613</u>	<u>-</u>
Total Investments	<u>\$ 814,630</u>	<u>\$ 514,251</u>	<u>\$ 290,613</u>	<u>\$ 9,766</u>

Negotiability – Negotiable certificate of deposits are usually in bearer form, and have secondary market that are easily transferable and highly liquid. As of June 30, 2006, the City had negotiable Certificate of Deposits in the amount of \$582,063, and non-negotiable Certificate of Deposits in the amount of \$99,000.

**NOTE 4 - TAXES:**

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Romeo for the fiscal year 2006 had a taxable value of \$277,669,670. The millage rates levied by the Village were 10.000 for General Operating and 1.489 for Municipal Streets.

The County of Macomb has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

**NOTE 5 - RECEIVABLES:**

	Governmental Activities	Business-type Activities
Taxes	\$ 89,193	\$ -
Accounts and Interest	11,932	341,672
Intergovernmental	<u>162,928</u>	<u>525,397</u>
	264,053	867,069
Less - Allowance for Uncollectible	( 40,876)	-
	<u>\$ 223,177</u>	<u>\$ 867,069</u>

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 – RECEIVABLES – (cont'd):**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund - Property Taxes	\$ <u>80,136</u>	\$ <u>-</u>

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2006:

**Due To/From Other Funds -**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 1,385
	Local Street Fund	9,326
	Municipal Street Fund	697
	Inspections Fund	631
	Wastewater System Fund	4,225
	Water Fund	13,397
	Motor Vehicle and Equipment Pool Fund	1,198
	Agency Fund	2,967
Municipal Street Fund	Local Street Fund	41,519
Local Street Fund	Major Street Fund	10,690
Cemetery Fund	General Fund	423
Wastewater System Fund	Water Fund	1,200
Motor Pool Fund	Major Street Fund	2,308
	Municipal Street Fund	307
	Local Street Fund	14,980
	Cemetery Fund	1,226
	Wastewater System Fund	781
	Water Fund	<u>7,189</u>
		<u>\$ 114,449</u>

**Due To/From Primary Government -**

Downtown Development Authority	General Fund	<u>\$ 62,225</u>
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**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):**

**Transfers From/To Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 30,954
	Municipal Street Fund	162,818
Cemetery Fund	Motor Vehicle and Equipment Pool Fund	22,800
1994 Transportation Bond Fund	Major Street Fund	27,814
	Local Street Fund	17,968
1995 G.O. Bond Debt Fund	General Fund	98,853
Water Supply System Fund	General Fund	409,189
Wastewater Fund	General Fund	466,937
	Public Improvement Fund	<u>44,088</u>
Total Transfers		<u>\$ 1,281,421</u>

**NOTE 7 - CAPITAL ASSETS:**

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

	<u>July 1, 2005</u>			<u>June 30, 2006</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 681,473	\$ -	\$ -	\$ 681,473
Capital assets, being depreciated:				
Land improvements	397,095	-	-	397,095
Buildings and improvements	1,623,290	-	-	1,623,290
Machinery and equipment	720,989	9,399	-	730,388
Vehicles	1,137,322	143,000	80,469	1,199,853
Sidewalks	<u>75,644</u>	<u>-</u>	<u>-</u>	<u>75,644</u>
Total capital assets being depreciated	<u>3,954,340</u>	<u>152,399</u>	<u>80,469</u>	<u>4,026,270</u>
Less accumulated depreciation for:				
Land improvements	157,499	13,688	-	171,187
Buildings and improvements	551,858	31,746	-	583,604
Machinery and equipment	404,957	48,974	-	453,931
Vehicles	801,042	113,310	80,469	833,883
Sidewalks	<u>7,564</u>	<u>7,565</u>	<u>-</u>	<u>15,129</u>
Total accumulated depreciation	<u>1,922,920</u>	<u>215,283</u>	<u>80,469</u>	<u>2,057,734</u>
Total capital assets being depreciated, net	<u>2,031,420</u>	<u>( 62,884)</u>	<u>-</u>	<u>1,968,536</u>
Governmental activities capital assets, net	<u>\$ 2,712,893</u>	<u>\$ ( 62,884)</u>	<u>\$ -</u>	<u>\$ 2,650,009</u>

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 - CAPITAL ASSETS – (cont'd):**

	July 1, 2005			June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 15,316	\$ -	\$ -	\$ 15,316
Construction in progress	<u>2,853,317</u>	<u>5,340,063</u>	<u>-</u>	<u>8,193,380</u>
	<u>2,868,633</u>	<u>5,340,063</u>	<u>-</u>	<u>8,208,696</u>
Capital assets, being depreciated:				
Buildings and improvements	7,285,842	-	-	7,285,842
Utility systems	7,892,475	45,880	-	7,938,355
Machinery and equipment	<u>1,703,184</u>	<u>60,333</u>	<u>-</u>	<u>1,763,517</u>
Total capital assets being depreciated	<u>16,881,501</u>	<u>106,213</u>	<u>-</u>	<u>16,987,714</u>
Less accumulated depreciation for:				
Buildings and improvements	3,853,701	170,137	-	4,023,838
Utility systems	2,108,284	178,272	-	2,286,556
Machinery and equipment	<u>1,629,773</u>	<u>20,343</u>	<u>-</u>	<u>1,650,116</u>
Total accumulated depreciation	<u>7,591,758</u>	<u>368,752</u>	<u>-</u>	<u>7,960,510</u>
Total capital assets being depreciated, net	<u>9,289,743</u>	<u>( 262,539)</u>	<u>-</u>	<u>9,027,204</u>
Business activities capital assets, net	<u>\$ 12,158,376</u>	<u>\$ 5,077,524</u>	<u>\$ -</u>	<u>\$ 17,235,900</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 22,277
Public Safety	63,877
Public Works	<u>61,535</u>
Total depreciation expense-governmental activities	<u>\$ 147,689</u>
Business-type activities:	
Wastewater	\$ 170,000
Water Supply System	<u>198,752</u>
Total depreciation expense-business-type activities	<u>\$ 368,752</u>

In addition there was depreciation of \$67,594 in the Motor Pool Fund.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM DEBT:**

The following is a summary of changes in the long-term liabilities (including current portion) of the Primary Government for the year ended June 30, 2006:

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Fund -					
1994 Transportation Bond	\$ 205,000	\$ -	\$ 35,000	\$ 170,000	\$ 40,000
1995 General Obligation Unlimited Tax Bonds	550,000	-	70,000	480,000	75,000
1994 Harron Cable Note	24,429	-	9,397	15,032	10,101
Parking Lot Land Contract	11,433	-	6,002	5,431	5,431
Accrued Vacation and Sick Pay	137,735	5,613	-	143,348	-
Lighting Project Capital Lease	44,470	-	19,278	25,192	17,963
Vehicle Capital Lease	45,410	-	22,044	23,366	23,366
	<u>1,018,477</u>	<u>5,613</u>	<u>161,721</u>	<u>862,369</u>	<u>171,861</u>
Internal Service Fund -					
Vactor Capital Lease	-	135,000	47,646	87,354	42,405
Total Governmental Activities	<u>1,018,477</u>	<u>140,613</u>	<u>209,367</u>	<u>949,723</u>	<u>214,266</u>
<u>Business-type Activities:</u>					
1998 General Obligation Unlimited Tax Refunding Bonds	1,200,000	-	270,000	930,000	270,000
2004 General Obligation Limited Tax Bonds	6,300,000	-	125,000	6,175,000	125,000
Accrued Vacation and Sick Pay	42,885	14,562	-	57,447	-
Installment Purchase Contract Booster Pump	505,221	-	68,637	436,584	71,726
Deferred Amounts for:					
Refunding Loss	( 70,307)	-	( 16,416)	( 53,891)	( 16,416)
Issuance Discounts	( 121,135)	-	( 5,506)	( 115,629)	( 5,506)
	<u>7,856,664</u>	<u>14,562</u>	<u>441,715</u>	<u>7,429,511</u>	<u>444,804</u>
	<u>\$ 8,875,141</u>	<u>\$ 155,175</u>	<u>\$ 651,082</u>	<u>\$ 8,379,234</u>	<u>\$ 659,070</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

**1994 Transportation Bonds:**

The 1994 \$440,000 Transportation Bonds, dated October 1, 1994, due in annual installments ranging from \$40,000 to \$45,000 through October 1, 2009, with interest ranging 5.65 to 5.75 percent payable semi-annually.

\$ 170,000

**1995 General Obligation Unlimited Tax Bonds:**

The 1995 \$995,000 General Obligation Unlimited Tax Bonds, dated October 1, 1995, due in annual installments ranging from \$75,000 to \$120,000 through May 1, 2010 with interest ranging from 5.35 to 5.70 percent, payable semi-annually.

480,000

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM DEBT – (cont'd):**

**1994 Harron Cable Note:**

The 1994 \$95,000 Harron Cable Note, dated January 19, 1994, due in monthly installments of \$905, with interest of 7.25 percent payable monthly through May 19, 2008.

\$ 15,032

**Parking Lot Land Contract:**

The Village purchased a parking lot for \$125,000, dated April 22, 1999, on a land contract. During January 2000, an additional payment of \$80,000 was made to be applied to the principal balance owing. Payments are due in monthly installments of \$566, with interest 9.0 percent payable monthly through April 22, 2007.

5,431

**Vehicle Capital Lease:**

The Village entered into a lease purchase agreement for three police vehicles in the amount of \$70,178. The first annual payment of \$24,768 was made on the date of purchase. The remaining balance is due in an installment of \$23,366, including interest of 6.0 percent payable annually through June 17, 2007.

23,366

**Lighting Project Capital Lease:**

The Village entered into a lease purchase agreement for a new exterior lighting retrofit project in the amount of \$88,500 on October 25, 2002. Payments are due in monthly installments of \$1,724, with interest of 6.54 percent payable monthly through October 1, 2007.

25,192

**Vector Capital Lease:**

The Village entered into a lease purchase agreement for a remanufactured vector in the amount of \$135,000. The first annual payment of \$47,646 was made on the date of purchase. The remaining balance is due in installments of \$47,646, including interest of 6.0 percent payable through September 19, 2007.

87,354

\$ 806,375

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM DEBT - (cont'd):**

**Enterprise Funds:**

**2004 General Obligation Limited Tax Bonds:**

The 2004 \$6,300,000 General Obligation Limited Tax Bonds, dated December 1, 2004, were issued for improvements and expansion to the Wastewater System. The bonds are due in annual installments increasing from \$125,000 to \$450,000 through October 1, 2028; plus interest ranging from 4.0 to 5.5 percent, payable semi-annually.

\$ 6,175,000

**1998 General Obligation Unlimited Tax Refunding Bonds:**

The 1998 \$2,470,000 General Obligation Unlimited Tax Refunding Bonds, dated March 1, 1998, were issued to advance refund a portion of the 1989 General Obligation Unlimited Tax Bonds, dated September 1, 1989 call of \$1,175,000 and the 1992 General Obligation Water Supply Unlimited Tax Bonds, dated June 1, 1992, call of \$1,030,000. The net proceeds, after deducting issuance cost, were deposited in an escrow account and used to purchase U.S. Government Securities. Accordingly, the trust account assets and liabilities for the defeased bond issue are not included in the Village's financial statements. At June 30, 2006, \$1,085,000 of the debt defeased "in substance" remains outstanding.

The advance refunding resulted in an economic gain (difference between present value of the debt service payments on the old and new debt) of \$95,284. The 1998 bonds are due in annual installments of \$95,000 to \$270,000 through October 1, 2012, with interest ranging between 4.45 to 4.85 percent, payable semi-annually.

930,000

**Contracts Payable:**

The Village entered into an installment purchase contract, dated October 3, 2001, to finance the construction of booster pumps. Payments are due in semi-annual installments of \$45,182 with interest of 4.45 percent payable monthly through October 19, 2011.

436,584

\$ 7,541,584



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM DEBT - (cont'd):**

**Accrued Vacation and Sick Pay:**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$143,348 as well as the Enterprise Fund portion of \$57,447 has been recorded in the government-wide financial statements as a long-term liability.

\$ 200,795

**Annual Debt Requirements -**

The annual requirements to pay the debt outstanding at June 30, 2006, for the following bonds, notes and leases, (excluding accrued vacation and sick) of the Primary Government, are as follows:

Year	Governmental Activities						Business-Type Activities			
	G.O. Bonds		Notes		Leases		G.O. Bonds		Contract	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 115,000	\$ 32,059	\$ 15,532	\$ 985	\$ 83,734	\$ 7,788	\$ 395,000	\$ 327,995	\$ 71,726	\$ 18,639
2008	125,000	25,292	4,931	479	52,178	2,790	245,000	312,288	74,954	15,412
2009	140,000	20,869	-	-	-	-	250,000	299,651	78,385	12,039
2010	270,000	17,442	-	-	-	-	255,000	286,762	81,850	8,515
2011	-	-	-	-	-	-	290,000	263,574	85,470	4,831
2012-2016	-	-	-	-	-	-	1,295,000	1,118,419	44,199	983
2017-2021	-	-	-	-	-	-	1,400,000	824,019	-	-
2022-2026	-	-	-	-	-	-	1,725,000	442,088	-	-
2027-2028	-	-	-	-	-	-	1,250,000	43,750	-	-
	<u>\$ 650,000</u>	<u>\$ 95,662</u>	<u>\$ 20,463</u>	<u>\$ 1,464</u>	<u>\$ 135,912</u>	<u>\$ 10,578</u>	<u>\$7,105,000</u>	<u>\$3,918,546</u>	<u>\$ 436,584</u>	<u>\$ 60,419</u>

**NOTE 9 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Village of Romeo participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):**

**Funding Policy -**

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 4.22%-28.48%. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

**Annual Pension Costs -**

For fiscal 2006, the Village's annual pension cost of \$129,240 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 4.5% to 12.9% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**Three-Year Trend Information**

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 95,550	100 %	\$ -
2005	129,688	100	-
2006	129,240	100	-

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Over funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 2,874,370	\$ 3,619,954	\$ 745,584	79 %	\$ 1,037,276	72 %
2004	3,052,898	3,812,556	759,658	80	1,086,068	70
2005	3,285,943	3,812,556	790,147	81	1,127,989	70

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 - POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the Village of Romeo provides post-retirement health care and life insurance benefits to all non-unionized employees who retire from the Village on or after attaining age 55 with at least 10 years of service. Expenditures for post-retirement health care and life insurance benefits are recognized on a pay-as-you-go basis. For the year ended June 30, 2006 these costs amounted to approximately \$116,761 with eight eligible participants.

**NOTE 11 - WATER PURCHASES AGREEMENT:**

On December 6, 1978, the Village of Romeo entered into an agreement with the City of Detroit, for the purchase of water for the Ford Motor Company. The agreement as amended, among other things, requires the Village to pay for a minimum of 11.0 million cubic feet of water at such rates as the City of Detroit may establish, assuming such rates are reasonable in relation to the cost incurred by the City of Detroit. The term of the agreement is for a period of at least thirty-five (35) years.

In conjunction the Village of Romeo entered into an agreement, dated October 30, 1978, with the Ford Motor Company who agreed to purchase water from the Village. The agreement, as amended in November, 1987, among other items, requires the Ford Motor Company to purchase 11.0 million cubic feet of water at such rates as established by the Village Board. The term of the agreement is for a period of thirty-five (35) years.

**NOTE 12 - WASTEWATER TREATMENT FACILITY:**

The Village has entered into an agreement, dated September 21, 1977, with Bruce Township whereby the Township purchased 15.93% of the Wastewater Treatment Plant's capacity. Under the agreement the Township funded 15.93% of the Village's share of construction costs and assumes certain annual operating costs, namely:

- a) 15.93% of the principal and interest owed on the former sewage treatment facility;
- b) 15.93% of fixed operating costs;
- c) A portion of the variable operating costs determined by the Township's percentage of flow in relation to the allocated Township capacity.

For the year ended June 30, 2006, the Township's portion of operating expenses is \$116,692.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:**

The Ford Motor Company Engine Division, located within the Village, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended June 30, 2006, are summarized below:

	<u>Revenues Provided</u>	<u>Approximate Percentage</u>
Property Taxes	\$ 1,422,311	45 %
Wastewater Treatment Service	129,364	24
Water Purchases	118,868	33

**NOTE 14 - RESTRICTED ASSETS:**

The restricted assets of \$2,302 in the Water Fund and \$1,867,502 in the Wastewater System Fund are for capital improvements.

**NOTE 15 - DEFERRED COMPENSATION:**

The Village offers all of its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer the Village of Romeo for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer for assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village's financial statements.

**NOTE 16 - INTERGOVERNMENTAL AGREEMENT:**

On February 9, 1999 the Village of Romeo signed an agreement with the Township of Bruce. The agreement provides that the Township will provide Fire, Basic Life Support and Advanced Life Support Services to the Village for all fire and emergency medical calls originating within the Village. The Township acquired title to, and obtained ownership interest in, all vehicles and equipment owned by the Village for one (\$1.00) dollar. In the event this agreement is not renewed by the parties or is otherwise terminated, the Township shall re-convey all then existing equipment and vehicles, which it previously purchased from the Village for one (\$1.00) dollar. The Village will pay the Township a base rent plus an incremental rent. The agreement is for a term of four (4) years and five (5) months ending on June 30, 2004. The agreement is automatically renewed for successive four (4) years, unless either party notifies the other party twenty-four (24) months prior to the expiration of the agreement.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 17 - RISK MANAGEMENT:**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Village has purchased issuance coverage for each of these types of losses, however would be responsible should limits of coverage be exceeded.

**NOTE 18 - CONTINGENT LIABILITIES:**

One of the Village's large industrial entities is claiming that they were inadvertently double assessed for certain personal property taxes. The claim has been dismissed by the Michigan Tax Tribunal and the Michigan Court of Appeals. The entity filed a motion for reconsideration with the Michigan Court of Appeals, which upheld the dismissal of the entities claim by the Michigan Tax Tribunal. The Supreme Court held that the Michigan Tax Tribunal and Michigan Court of Appeals erred when they concluded that the entity did not state valid claims and remanded the case back to the Michigan Tax Tribunal. (The Michigan Tax Tribunal has yet to address the merit of the claim.)

There is some uncertainty as to the size of the potential claim against the Village of Romeo; however, the Bruce Township Assessor estimates the Village's potential liability to be less than 1.5 million dollars. Due to the inconclusive nature, it is not possible to determine the probable outcome or a reasonable estimate of the Village's potential liability, if any.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# VILLAGE OF ROMEO, MICHIGAN

## GENERAL FUND

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

#### BUDGET AND ACTUAL

**FOR THE YEAR ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Property taxes	\$ 2,777,770	\$ 2,721,529	\$( 56,241)
Licenses and permits	9,000	9,050	50
Intergovernmental -			
State	383,300	398,858	15,558
Fines and forfeits	45,000	39,375	( 5,625)
Interest and rents	15,000	61,500	46,500
Other	-	11,644	11,644
	<u>3,230,070</u>	<u>3,241,956</u>	<u>11,886</u>
<b>Expenditures:</b>			
General Government -			
Legislative	26,500	23,868	2,632
Clerk / Administrator	98,000	99,199	( 1,199)
Treasurer	48,185	47,567	618
Village Hall	294,850	269,562	25,288
	<u>467,535</u>	<u>440,196</u>	<u>27,339</u>
Public Safety -			
Fire Department	344,200	343,016	1,184
Police Department	969,912	984,083	( 14,171)
	<u>1,314,112</u>	<u>1,327,099</u>	<u>( 12,987)</u>
Public Works -			
Department of Public Works	195,800	203,474	( 7,674)
Sanitation	198,000	191,109	6,891
	<u>393,800</u>	<u>394,583</u>	<u>( 783)</u>
Other	130,500	120,932	9,568
Capital Outlay	12,000	4,516	7,484
Debt Service	31,800	31,556	244
Total Expenditures	<u>2,349,747</u>	<u>2,318,882</u>	<u>30,865</u>
Excess of revenues over expenditures	880,323	923,074	42,751
<b>Other Financing Uses:</b>			
Transfer Out	( 976,618)	( 974,979)	1,639
Excess of revenues under expenditures and other uses	( 96,295)	( 51,905)	44,390
Fund Balance at beginning of year	1,123,417	1,123,417	-
Fund Balance at end of year	<u>\$ 1,027,122</u>	<u>\$ 1,071,512</u>	<u>\$ 44,390</u>

# VILLAGE OF ROMEO, MICHIGAN

## MAJOR STREET FUND

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

#### BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Intergovernmental -			
State - Act 51		\$ 124,000	
Interest and rent		27,699	
	<u>\$ 125,000</u>	<u>151,699</u>	<u>\$ 26,699</u>
<b>Expenditures:</b>			
Public Works -			
Routine maintenance		38,624	
Winter maintenance		7,414	
Village beautification		80	
Sidewalks		2,364	
Traffic and street signs		170	
	<u>68,436</u>	<u>48,652</u>	<u>19,784</u>
Excess of revenues over expenditures	<u>56,564</u>	<u>103,047</u>	<u>46,483</u>
<b>Other Financing Uses:</b>			
Transfers Out -			
Local Street	( 28,750)	( 30,954)	( 2,204)
1994 Transportation Bonds	( 27,814)	( 27,814)	-
	<u>( 56,564)</u>	<u>( 58,768)</u>	<u>( 2,204)</u>
Excess of revenues over expenditures and other uses	-	44,279	44,279
Fund Balance at beginning of year	<u>1,030,212</u>	<u>1,030,212</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,030,212</u>	<u>\$ 1,074,491</u>	<u>\$ 44,279</u>



# VILLAGE OF ROMEO, MICHIGAN

## MUNICIPAL STREET FUND

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Taxes		\$ 412,133	
Interest and rent		5,263	
Miscellaneous		1,064	
	<u>\$ 360,948</u>	<u>418,460</u>	<u>\$ 57,512</u>
<b>Expenditures:</b>			
Public Works -			
Routine maintenance		47,042	
Traffic and street signs		2,725	
Winter maintenance		2,007	
Street lighting		11,936	
Village beautification		35,941	
Village tree board		22	
Sidewalks		15,152	
Debt Service		20,688	
	<u>198,100</u>	<u>135,513</u>	<u>62,587</u>
Excess of revenues over expenditures	162,848	282,947	120,099
<b>Other Financing Uses:</b>			
Transfers Out -			
Local Street Fund	<u>( 162,848)</u>	<u>( 162,818)</u>	<u>30</u>
Excess of revenues over expenditures and other uses	-	120,129	120,129
Fund Balance at beginning of year	<u>43,662</u>	<u>43,662</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 43,662</u></u>	<u><u>\$ 163,791</u></u>	<u><u>\$ 120,129</u></u>

## **SUPPLEMENTARY INFORMATION**

# VILLAGE OF ROMEO, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2006

### Special Revenue Funds

	<u>Local Street</u>	<u>Cemetery</u>	<u>Public Improvement</u>	<u>Inspections</u>	<u>Library</u>	<u>Harron Cable</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 79,369	\$ 141,272	\$ 206,596	\$ 31,075	\$ 40	\$ 61,454
Receivable	-	-	-	80	-	-
Due from other governmental units -						
State	10,638	-	-	-	-	-
Due from other funds	10,690	423	-	-	-	-
	<u>\$ 100,697</u>	<u>\$ 141,695</u>	<u>\$ 206,596</u>	<u>\$ 31,155</u>	<u>\$ 40</u>	<u>\$ 61,454</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payables	\$ 1,194	\$ 3,684	\$ 12,478	\$ 54	\$ -	\$ -
Accrued liabilities	683	1,806	-	3,503	-	-
Due to other funds	65,825	1,226	-	631	-	-
	<u>67,702</u>	<u>6,716</u>	<u>12,478</u>	<u>4,188</u>	<u>-</u>	<u>-</u>
<b>Fund Balance:</b>						
Reserved -						
Debt Services	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
Unreserved -						
Undesignated	32,995	134,979	194,118	26,967	40	61,454
	<u>32,995</u>	<u>134,979</u>	<u>194,118</u>	<u>26,967</u>	<u>40</u>	<u>61,454</u>
	<u>\$ 100,697</u>	<u>\$ 141,695</u>	<u>\$ 206,596</u>	<u>\$ 31,155</u>	<u>\$ 40</u>	<u>\$ 61,454</u>

Debt Service Funds		Capital Project Fund	
1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	Total
\$ 86,738	\$ 683	\$ 36,420	\$ 643,647
-	-	-	80
-	-	-	10,638
-	-	-	11,113
<u>\$ 86,738</u>	<u>\$ 683</u>	<u>\$ 36,420</u>	<u>\$ 665,478</u>
\$ -	\$ -	\$ -	\$ 17,410
-	-	-	5,992
-	-	-	67,682
<u>-</u>	<u>-</u>	<u>-</u>	<u>91,084</u>
86,738	683	-	87,421
-	-	36,420	36,420
-	-	-	450,553
<u>86,738</u>	<u>683</u>	<u>36,420</u>	<u>574,394</u>
<u>\$ 86,738</u>	<u>\$ 683</u>	<u>\$ 36,420</u>	<u>\$ 665,478</u>

# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2006

#### Special Revenue Funds

	Local Street	Cemetery	Public Improvement	Inspections	Library	Harron Cable
<b>Revenues:</b>						
Intergovernmental -						
State	\$ 73,014	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	16,650	-	29,138	-	-
Interest and rent	3,602	4,519	7,954	1,078	-	12,867
Other	454	54,655	-	-	-	45,788
	<u>77,070</u>	<u>75,824</u>	<u>7,954</u>	<u>30,216</u>	<u>-</u>	<u>58,655</u>
<b>Expenditures:</b>						
General Government	-	75,870	-	-	-	-
Public Safety	-	-	-	33,856	-	-
Public Works	233,226	-	7,882	-	-	-
Recreation and Cultural	-	-	-	-	-	43,865
Debt Service						
Principal	-	-	-	-	-	9,397
Interest and charges	-	-	-	-	-	1,463
	<u>233,226</u>	<u>75,870</u>	<u>7,882</u>	<u>33,856</u>	<u>-</u>	<u>54,725</u>
Excess of revenues over (under) expenditures	<u>( 156,156)</u>	<u>( 46)</u>	<u>72</u>	<u>( 3,640)</u>	<u>-</u>	<u>3,930</u>
<b>Other Financing Sources (Uses):</b>						
Transfers In	193,772	22,800	-	-	-	-
Transfer Out	<u>( 17,968)</u>	<u>-</u>	<u>( 44,088)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>175,804</u>	<u>22,800</u>	<u>( 44,088)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	19,648	22,754	( 44,016)	( 3,640)	-	3,930
Fund Balances at beginning of year	<u>13,347</u>	<u>112,225</u>	<u>238,134</u>	<u>30,607</u>	<u>40</u>	<u>57,524</u>
Fund Balances at end of year	<u><u>\$ 32,995</u></u>	<u><u>\$ 134,979</u></u>	<u><u>\$ 194,118</u></u>	<u><u>\$ 26,967</u></u>	<u><u>\$ 40</u></u>	<u><u>\$ 61,454</u></u>

Debt Service Funds		Capital Project Fund	
1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	Total
\$ -	\$ -	\$ -	\$ 73,014
-	-	-	45,788
1,798	-	1,296	33,114
-	-	-	100,897
<u>1,798</u>	<u>-</u>	<u>1,296</u>	<u>252,813</u>
-	-	-	75,870
-	-	-	33,856
675	-	4,072	245,855
-	-	-	43,865
35,000	70,000	-	114,397
10,781	28,853	-	41,097
<u>46,456</u>	<u>98,853</u>	<u>4,072</u>	<u>554,940</u>
<u>( 44,658)</u>	<u>( 98,853)</u>	<u>( 2,776)</u>	<u>( 302,127)</u>
45,782	98,853	-	361,207
-	-	-	( 62,056)
<u>45,782</u>	<u>98,853</u>	<u>-</u>	<u>299,151</u>
1,124	-	( 2,776)	( 2,976)
<u>85,614</u>	<u>683</u>	<u>39,196</u>	<u>577,370</u>
<u>\$ 86,738</u>	<u>\$ 683</u>	<u>\$ 36,420</u>	<u>\$ 574,394</u>

# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR SPECIAL REVENUE FUNDS

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>LOCAL STREET FUND</b>			
<b>Revenues:</b>			
Intergovernmental -			
State - Act 51		\$ 64,425	
Public Act 48		8,589	
Interest		3,602	
Miscellaneous		454	
	<u>\$ 94,270</u>	<u>77,070</u>	<u>\$( 17,200)</u>
<b>Expenditures:</b>			
Public Works -			
Routine maintenance		175,639	
Traffic markers and street signs		6,505	
Winter maintenance		50,357	
Sidewalks		10	
Construction		715	
	<u>267,900</u>	<u>233,226</u>	<u>34,674</u>
Excess of revenues over (under) expenditures	<u>( 173,630)</u>	<u>( 156,156)</u>	<u>17,474</u>
<b>Other Financing Sources (Uses):</b>			
Transfers In (Out) -			
Major Street	28,750	30,954	2,204
Municipal Street	162,848	162,818	( 30)
1994 Street Replacement	<u>( 17,968)</u>	<u>( 17,968)</u>	<u>-</u>
	<u>173,630</u>	<u>175,804</u>	<u>2,174</u>
Excess of revenues and other sources over expenditures and other uses	-	19,648	19,648
Fund Balance at beginning of year	<u>13,347</u>	<u>13,347</u>	<u>211,797</u>
Fund Balance at end of year	<u><u>\$ 13,347</u></u>	<u><u>\$ 32,995</u></u>	<u><u>\$ 231,445</u></u>

# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR SPECIAL REVENUE FUNDS

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

	Original/ Final Budget	Actual	Continued Variance with Final Budget Positive (Negative)
<b>CEMETERY FUND</b>			
<b>Revenues:</b>			
Charges for services -			
Grave openings		\$ 16,650	
Interest and rent		4,519	
Other revenue -			
Sale of lots		48,585	
Miscellaneous		6,070	
	<u>\$ 50,000</u>	<u>75,824</u>	<u>\$ 25,824</u>
<b>Expenditures:</b>			
General Government -			
Salaries		47,700	
Fringe benefits		4,234	
Contracted Service		250	
Supplies		1,774	
Telephone		422	
Utilities		651	
Repairs and maintenance -			
Building and grounds		507	
Equipment		5,677	
Miscellaneous		512	
Equipment rental		14,143	
	<u>72,800</u>	<u>75,870</u>	<u>( 3,070)</u>
Excess of revenues over (under) expenditures	( 22,800)	( 46)	22,754
<b>Other Financing Sources:</b>			
Transfer In -			
Motor Vehicle and Equipment Pool	<u>22,800</u>	<u>22,800</u>	<u>-</u>
Excess of revenues and other sources over expenditures	-	22,754	22,754
Fund Balance at beginning of year	<u>112,225</u>	<u>112,225</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 112,225</u>	<u>\$ 134,979</u>	<u>\$ 22,754</u>



# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR SPECIAL REVENUE FUNDS

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

#### BUDGET AND ACTUAL

#### FOR THE YEAR ENDED JUNE 30, 2006

			Continued
	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>PUBLIC IMPROVEMENT FUND</b>			
<b>Revenues:</b>			
Interest and rent	\$ 203,000	\$ 7,954	\$( 195,046)
<b>Expenditures:</b>			
Public Works -			
Contracted services	203,000	7,882	195,118
Excess of revenues over expenditures	-	72	72
<b>Other Financing Uses:</b>			
Transfers out -			
Sewer Fund	-	( 44,088)	( 44,088)
Excess of revenues under expenditures and other uses	-	( 44,016)	( 44,016)
Fund Balance at beginning of year	238,134	238,134	-
Fund Balance at end of year	\$ 238,134	\$ 194,118	\$( 44,016)

# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR SPECIAL REVENUE FUNDS

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

#### BUDGET AND ACTUAL

#### FOR THE YEAR ENDED JUNE 30, 2006

			Continued
	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>INSPECTIONS FUND</b>			
<b>Revenues:</b>			
Permits			
Building		\$ 16,066	
Electrical		3,963	
Heating		9,109	
Interest		1,078	
	<u>\$ 35,000</u>	<u>30,216</u>	<u>\$ ( 4,784)</u>
<b>Expenditures:</b>			
Public Safety -			
Salaries		25,669	
Fringe benefits		1,939	
Supplies		60	
Contracted services		2,300	
Telephone		1,089	
Education and training		2,660	
Other		139	
	<u>35,000</u>	<u>33,856</u>	<u>1,144</u>
Excess of revenues under expenditures	-	( 3,640)	( 3,640)
Fund Balance at beginning of year	<u>30,607</u>	<u>30,607</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 30,607</u>	<u>\$ 26,967</u>	<u>\$ ( 3,640)</u>

**VILLAGE OF ROMEO, MICHIGAN**

**NONMAJOR SPECIAL REVENUE FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

			Continued
	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	<u>(Negative)</u>
<b>HARRON CABLE FUND</b>			
<b>Revenues:</b>			
Interest and rents		\$ 12,867	
Other -			
Franchise fees		45,788	
	<u>\$ 54,725</u>	<u>58,655</u>	<u>\$ 3,930</u>
<b>Expenditures:</b>			
Recreation and Cultural -			
Tri-Community Cable Communication			
Commission		43,865	
Debt Service		10,860	
	<u>54,725</u>	<u>54,725</u>	<u>-</u>
Excess of revenues over expenditures	-	3,930	3,930
Fund Balance at beginning of year	<u>57,524</u>	<u>57,524</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 57,524</u></u>	<u><u>\$ 61,454</u></u>	<u><u>\$ 3,930</u></u>

Concluded

## **FIDUCIARY FUND**

# VILLAGE OF ROMEO, MICHIGAN

## AGENCY FUND STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 650	\$ 2,967	\$ 1,180	\$ 2,437
Accounts receivable	<u>-</u>	<u>530</u>	<u>-</u>	<u>530</u>
	<u>650</u>	<u>3,497</u>	<u>1,180</u>	<u>2,967</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES</b>				
Due to other funds	\$ -	\$ 2,967	\$ -	\$ 2,967
Due to other governmental units - Local	<u>650</u>	<u>-</u>	<u>650</u>	<u>-</u>
	<u>\$ 650</u>	<u>\$ 2,967</u>	<u>\$ 650</u>	<u>\$ 2,967</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## **COMPONENT UNIT**

**VILLAGE OF ROMEO, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**BALANCE SHEET**  
**JUNE 30, 2006**

**Current Assets:**

Cash and cash equivalents	\$ 268,670
Due from primary government	<u>62,225</u>
	<u><u>\$ 330,895</u></u>

**Fund Balance:**

Unreserved/Undesignated	<u><u>\$ 330,895</u></u>
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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Taxes	\$ 133,160	\$ 132,791	\$( 369)
Interest and rents	<u>750</u>	<u>10,260</u>	<u>9,510</u>
	<u>133,910</u>	<u>143,051</u>	<u>9,141</u>
<b>Expenditures:</b>			
Public Works -			
Events		15,096	
Advertising		5,591	
Insurance		1,888	
Office		1,384	
Professional services		25,604	
Occupancy and utilities		6,383	
Streetscape		31,222	
Miscellaneous		<u>1,314</u>	
	<u>133,910</u>	<u>88,482</u>	<u>45,428</u>
Excess of revenues over expenditures	-	54,569	54,569
Fund Balance at beginning of year	<u>276,326</u>	<u>276,326</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 276,326</u></u>	<u><u>\$ 330,895</u></u>	<u><u>\$ 54,569</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the President and Members of  
The Village Council of Trustees  
Village of Romeo, Michigan

We have audited the financial statements of the Village of Romeo, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon, dated September 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village of Romeo, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

We also noted certain other matters involving the internal control over financial reporting that we reported to management of the Village of Romeo, Michigan's in a separate letter dated September 28, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Romeo, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information of the audit committee, management and others within the organization, and Township Board and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

Certified Public Accountants

September 28, 2006

## MANAGEMENT LETTER

To the President and Members  
of the Village Council  
Village of Romeo, Michigan

As you know, we have recently completed our audit of the financial statements of the Village of Romeo, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and operational efficiency. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting Based And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**, dated September 28, 2006, the conditions described below are not considered reportable conditions or material weaknesses.

**All cash receipts, including taxes, should be recorded at the time they are received.**

In prior years when payments were received for taxes, they were not immediately recorded into the cash receipting system, but rather given to the Village Treasurer and receipted at a later date. During the past year the Village partially adopted one of the prior year's recommendations in that all "cash" received is recorded at the time of payment. However, if payment is by check, it still is not receipted at the time of collection.

It was communicated by administration that it is not practical to record all utility payments and taxes at the time of collection, especially since all taxes must also be entered into the tax software. We recommend that the Village investigate if there is some type of electronic scanning device that is available that would make it practical to receipt all payments at the time of collection.

**There should be a perpetual inventory system established for the gasoline and diesel fuel storage tanks with periodic physical inventories taken.**

The Village currently has two fuel tanks that are being used by the DPW, WWTP and Police Department employees. These employees each have keys to access the pumps to use on an as needed basis. The employee writes down the amount of fuel pumped and submits it to their supervisor. The supervisors submit a report each month for the amount of fuel used by each department. This report is used to generate a journal entry to expense the cost of fuel to the proper department.

We recommend, to increase controls and to provide a more accurate inventory balance, that a perpetual inventory be established that reconciles the beginning inventory amount, plus additions, less usage to equal the amount of the asset that is recorded at the end of each month. Also at the end of each month, a physical reading should be taken and compared to the perpetual inventory records.

**Formal budget amendments should be made when anticipated expenditures exceed budget.**

Currently, it is assumed that whenever expenditure is approved individually by the Council, it is to be considered an amendment to the original budget.

Although we understand this, the Michigan Department of Treasury requires that the approval specifically indicate that the Council is also amending the budget to cover the anticipated expenditures.

**Controls over the cash receipts in the Police Department should be improved.**

For the year ended June 30, 2006, the Police Department wrote manual receipts for all monies received, with one copy for the payor, one copy put in the cash drawer, and the other copy remaining in the receipt book. Approximately once a week the copies in the cash receipt drawer would be subtotaled and compared to the cash and a deposit made with the Village Treasurer. However, the numerical sequence of receipts were not accounted for, as a result, receipts could be misplaced or misappropriated. During our testing, we noted that there were differences on 53 out of 57 deposits when adding the receipts in the receipt book and the deposits.

We recommend that the receipts that remain in the receipt book be subtotaled and compared to the cash and that one copy of the receipt (the copy that previously is put in the cash drawer) be given to the Village Treasurer so that she can recalculate the deposit.

**Downtown Development Authority -**

**All expenditures should be supported by adequate documentation and approved by the DDA Board.**

During our audit we were unable to locate invoices for certain expenditures and the "check requests" form was not always attached as required by the DDA policy. We recommend that invoices and check request be attached before signing the check and the documentation filed.

Also, the Michigan Department of Treasury requires and we strongly recommend that all invoices be approved by the Board prior to payment. If a penalty will be incurred or an invoice must be paid prior to the next Board meeting, then the bills requiring payment should be approved at the next meeting.

**A monthly financial statement should be prepared and approved by the Board.**

The DDA utilizes the program Quicken to prepare checks; however, it is our understanding that a monthly balance sheet and operating statement is not prepared and approved by the Board. We recommend that monthly financial statements be prepared and approved by the Board.

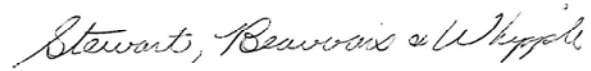
Also, the cash balance per the bank statement should be reconciled to the financial statement each month.

**The Board should consider adopting a conflict of interest policy.**

It is our understanding that the DDA currently does business with a couple of Board members. Although there is absolutely nothing wrong with this, we recommend that the Board adopt a conflict of interest policy outlining the areas that would be considered a conflict and when there is a conflict, the procedures that should be followed, such as the member not voting of the issue, disclosing the conflict annually, etc.

This report is intended solely for the information of the Village Council of the Village of Romeo, management, others within the organization and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beavronis & Whipple".

September 28, 2006